



**Iowa Department of Revenue**

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To: Michael Marshall, Secretary of the Senate  
Mark Brandsgard, Chief Clerk of the House

From: Mark Schuling, Director, Iowa Department of Revenue

Regarding: Tax Credits Tracking and Analysis Program 2007 Annual Report

Date: December 24, 2007

As required by 2007 Iowa Acts, House File 874, page 15, the Iowa Department of Revenue has prepared a report documenting progress in developing a Tax Credit Tracking and Analysis System and other accomplishments of the program during 2007. One printed copy and one electronic copy are being provided to each the Secretary of the Senate and to the Chief Clerk of the House.

# Tax Credits Tracking and Analysis Program 2007 Report to the General Assembly

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# IOWA Department of REVENUE

## Executive Summary

The Tax Credit Tracking and Analysis Program started in FY 2006. The Legislature provided the original funding for the program during its 2005 session in the Administration and Regulation Appropriations Bill (H.F. 810). Beginning with FY 2007 the cost of the program has been incorporated into the Department's overall operations appropriation. Each year's appropriation since FY 2006 has required an annual report to the Legislature by the end of the calendar year on activities undertaken through this program.

The primary objectives of the Tax Credits Tracking and Analysis System are:

- To provide information on the impact of tax credits on the State's budget,
- To provide departments of State government that award credits with better information on the amounts of tax credits that are claimed and when they are claimed, and
- To undertake evaluations of the effectiveness of tax credit programs in achieving the objectives for which they were created.

Iowa has 34 tax credit programs. Each type of credit may be claimed against one or more of seven State and two local taxes. Thirteen of the credits may be characterized as automatic, which means they may be claimed by any taxpayer that meets the eligibility requirements for the program. The remaining 21 credits are awarded by different departments of State government. During FY 2007, tax credit awards totaled \$516.2 million. This compares to \$208.5 million in tax credit awards during FY 2006. Most tax credits are claimed against individual income tax and corporate income tax. For tax year 2005, the most recent tax year for which complete information is available, \$150.2 million in tax credits were claimed against these two taxes. In addition, during calendar years 2005 and 2006, \$34.6 million and \$48.8 million, respectively, in withholding tax credits were claimed.

## Section 1: Program Overview

The Tax Credits Tracking and Analysis Program is a collaborative effort that involves seven departments of State government and the State's community colleges. The Department of Revenue serves as the lead agency for the program. Other departments and organizations participating in the program include: the Department of Cultural Affairs, the Department of Economic Development, the Department of Education, the Department of Workforce Development, the Utilities Board and the Insurance Division of the Department of Commerce, the Agricultural Development Authority, and the community colleges. Representatives from each of these organizations serve on the program's Steering Committee. This committee has played an instrumental role in establishing direction for the program and acting as a coordinating body for the sharing of information. In addition to the Steering Committee five working groups were established to assist on various technical aspects for the program. The memberships of the Steering Committee and the working groups are provided in Appendix A.

Following are updates on activities in each of the five major program areas during 2007.

### Database Design and Development

The design of the tax credits awards database was completed during 2006. During the past year some minor modifications to the database structure were completed. Also, completed during 2007 was the development of data transfer protocols. A key feature of these protocols was the facilitation of the direct transfer of data from departments that award tax credits to the tax credits database maintained by the Department of Revenue. Another feature of the data transfer protocols is their ability to accommodate the transfer of the tax credits

awards data in a variety of file formats (i.e., Excel, Access, SQL) , which minimizes the need for the departments that award tax credits to make major modifications to their information systems.

The population of the database began during 2007, but data has only been received for a small number of tax credit programs. Tax credit programs for which awards data has been received as of the end of November are:

- Iowa Industrial New Jobs Training Program (260E)
- Historic Preservation and Cultural and Entertainment District Tax Credit
- Wage-Benefit Tax Credit

There have been delays in obtaining awards data for other tax credit programs due to problems encountered by some awarding agencies in designing new databases for the programs that they administer. The Department of Economic Development has undertaken a project to redesign and integrate into a single database all of the information for tax credit and other business incentive programs it administers. Work on that project is not yet complete. In the interim the Department of Revenue and the Department of Economic Development have been working on a temporary means of compiling information from old databases and paper files for loading to the tax credits database. Similarly, the database for the Agricultural Assets Transfer Tax Credit administered by the Iowa Agricultural Development Authority is not complete.

### Tax Form Design and Data Capture

During 2006 a new form, the IA148 Tax Credits Schedule, was developed. Prior to the introduction of this form, taxpayers were not required to separately identify the amount or type of tax credits that were being claimed. Beginning with tax year 2006, taxpayers claiming a tax credit not individually listed on the IA 1040, the individual income tax form, or the IA 1120, the corporate income tax form, are required to file an IA 148. Taxpayers claiming any tax credits against the franchise tax or the insurance premium tax are also required to file an IA 148 along with their final return. This form requires taxpayers to separately report each credit being claimed. The information that must be reported on this form for non-refundable credits includes:

- The amount of credit being carried forward from a prior year
- The amount of new credits awarded or earned during the current tax year
- The amount of credit being claimed for the current tax year
- The amount of previously awarded or earned credits that have expired unused
- The amount of credits carried forward to future years

Also, amounts being claimed for any awarded refundable tax credits must be separately identified on this form.

In addition, for credits awarded and earned by pass-through entities (i.e., partnerships, limited liability companies, and S-corporations), but claimed by the owners of these businesses on their individual income tax returns, the IA148 form requires taxpayers to provide information on the business from which the credit was obtained and the taxpayer's ownership share of the business.

In association with the introduction of the IA148 form a new system for tying tax credit claims back to tax credit awards was implemented. The tracking mechanism involves the assignment of a 12-digit certificate number to each tax credit award. Embedded within the number are four items of information:

- Program Identification Number (digits 1 and 2)
- Fiscal Year (digits 3 through 6)
- Program Sequence Number for successive awards for a given tax credit program during a fiscal year (digits 7 through 10)
- Transfer Sequence Number indicating the number of times a tax credit is transferred (digits 11 and 12)

The certificate number is provided by the awarding agency to the original recipient of the tax credit. For any transferable tax credits the Department of Revenue reissues the certificate number after changing the Transfer Sequence Number to the new owner of the credit. When claiming credits on tax returns the taxpayer must provide the corresponding tax credit certificate number for each credit being claimed.

For taxpayers that file individual income tax returns electronically and use software that supports the IA148 form, data is captured automatically with the filing of the return. For returns filed on paper, a data entry application was developed by the Department of Revenue. Data capture from paper filed returns is currently being done. Also, beginning last year a data capture project was initiated for several supporting forms that taxpayers claiming certain credits are required to file along with their IA1040 and IA1120 forms. The forms from which data has been captured are:

- IA128 and IA128A Research Activities Credit
- IA6478 Ethanol Blended Gasoline Credit
- IA3468 Investment Tax Credit

These additional data capture efforts were undertaken to support evaluation studies either currently being worked on or planned for the next year. Data from these forms is not usually captured electronically by the Department through normal data entry operations.

### Credit Transfer and Pass-Through Tracking

As indicated in the previous section, a new requirement was established last year that involves the assignment of a 12-digit tax credit certificate number to each awarded tax credit. This requirement applies to all credits awarded beginning with calendar year 2007. With the cooperation of the major credit awarding departments an effort has been made to retroactively assign certificate numbers to tax credits awarded prior to 2007 for which claims have not likely already been made. When the analysis of data from the IA148 forms is completed it will be possible to determine to what extent additional effort is required to get certificate numbers assigned to prior year awards. In addition to information captured from the IA148 form, there are plans under consideration to use information captured from partnership information returns filed with the Department of Revenue to identify owners of pass-through entities that should have filed IA148 forms with their individual income tax returns.

Currently, six types of tax credits may be sold by the original awardee to raise funds to finance the activity for which the credits were awarded. The tax credits that are eligible for transfer are:

- The Historic Preservation and Cultural And Entertainment District Tax Credit
- The Housing Investment Tax Credit (under the Enterprise Zone Program)
- The Renewable Energy Tax Credit
- The Venture Capital Tax Credit – Iowa Fund of Funds
- The Wind Energy Production Tax Credit
- The Film, Television and Video Project Promotion Tax Credits

Prior to 2007 each department that awarded transferable tax credits was responsible for keeping track of transfers of the credits they originally awarded. Through legislation enacted during the 2006 legislative session the responsibility for processing and tracking tax credit transfers for all transferable credits was assigned to the Department of Revenue.

### Report Development

The program's Steering Committee initially identified three types of standard reports to be produced. The reports are:

- A quarterly Tax Credit Contingent Liabilities Brief for the Revenue Estimating Conference
- An annual Tax Credit Awards and Claims Status Report
- Tax Credit Evaluation Study reports

Eventually, there is the expectation that participating departments will be able to query the tax credits database, subject to certain data confidentiality restrictions, to be able to generate ad hoc reports. Currently requests for custom tables and reports are to be made to the Department of Revenue.

Reports produced through the Tax Credits Tracking and Analysis Program are posted on the Department of Revenue web site at <http://www.state.ia.us/tax/taxlaw/creditsstudy.html>

## Evaluation Methodologies and Studies

During 2007 an evaluation study of the Iowa Earned Income Tax Credit was completed. Two additional studies were initiated and are expected to be completed during early 2008. These studies address the State's Historic Preservation and Cultural and Entertainment District Tax Credit and the Research Activities Tax Credit.

The specific methodologies used in each of the evaluations undertaken so far have been customized depending on the issues the study addresses. However, each study does consist of five standard elements:

- A review of existing literature relating to studies of similar federal or other states' tax credit programs.
- A summary of the major features and statutory provisions of similar federal and other states' tax credit programs.
- A compilation of statistical information related to taxpayers that claim the credit, the size of credit claims for different groups or taxpayers, and the relationship of credit claims to credit awards.
- An econometric or other statistical analysis of the effectiveness of the tax credit in achieving the objectives for which it was created.
- Fiscal impact estimates for potential changes to various features of the tax credit, such as maximum claim amount, refundability, eligibility requirements, etc.

An advisory group of experts is created for each study to insure that the critical issues related to the tax credits being studied are adequately addressed, the methods of analysis employed in the studies are appropriate, and that the results of the study are clearly presented. The advisory groups generally consist of representatives from the department responsible for administration of the tax credit and outside experts from the State's universities, private sector, and non-profit organizations.

## Section 2: Tax Credits Legislation Enacted During 2007

During the 2007 legislative session only two new tax credits were enacted. Three other enacted bills made changes to existing tax credits programs.

**H.F. 892** established the Film, Television, and Video Project Promotion Program. This legislation created a qualified expenditures tax credit that may be claimed against corporate income, individual income, franchise, insurance premium, and money and credits taxes. The credit equals 25 percent of a taxpayer's qualified expenditures in a film, television or video project registered with the Film Office of the Iowa Department of Economic Development. To qualify for the credit the qualified expenditures must equal at least \$100,000. A qualified expenditure is a payment to an Iowa resident or an Iowa-based business for the sale, rental, or furnishing of tangible personal property or for services directly related to the registered project. The tax credit is not refundable, but amounts in excess of the taxpayer's tax liability for the year in which payments are received may be carried forward for up to five years. The credit is available to owners of partnerships, limited liability companies, S corporations, estates and trust. Owners of these entities may claim the credit on a pro rated basis based on the individual's ownership of the business entity, estate or trust. The Department of Economic Development is responsible for issuing original tax credit certificates. The tax credit is transferable. If transferred notification must be made to the Iowa Department of Revenue within 90 days of the transfer. The Department of Revenue will then issue a replacement tax credit certificate. The tax credit is available in years beginning on or after January 1, 2007.

In addition, the same legislation created a film investment tax credit. The credit equals 25 percent of a taxpayer's investment in a film, television or video project registered with the film office of the Iowa Department of Economic Development and expenditures in Iowa must equal at least \$100,000. The credit may be claimed against corporate income, individual income, franchise, insurance premium, and money and credits taxes. However, a taxpayer may not claim the film investment tax credit for the same project for which a qualified expenditures credit is claimed. The tax credit is not refundable, but amounts in excess of the taxpayer's tax liability for the year in which the investment is made may be carried forward for up to five years. The credit is available to owners of partnerships, limited liability companies, S corporations, estates and trust. Owners of these entities may claim the credit on a pro rated basis equal to the individual's ownership share of the business entity, estate or trust. The Department of Economic Development is responsible for issuing original tax credit

certificates. The tax credit is transferable. If transferred notification must be made to the Iowa Department of Revenue within 90 days of the transfer. The Department of Revenue will then issue a replacement tax credit certificate. The tax credit is available in years beginning on or after January 1, 2007.

Although not a tax credit the legislation also provided an income tax exclusion for income received by Iowa residents or Iowa-based businesses for individual income tax and for corporate income tax for payments received from the sale, rental, or furnishing of tangible personal property or services to a registered film, television or video project. However, a taxpayer who claims the film qualified expenditure tax credit, a business in which such taxpayer has an equity interest, and a business in which such taxpayer participates in the management is not eligible for the income tax exclusion.

**H.F. 923** increases the amount of School Tuition Organization Tax Credits that may be authorized from \$5.0 million to \$7.5 million per year beginning with tax year 2008. In addition, the legislation made noncash contributions eligible for the credit. Beginning with tax year 2007, school tuition organizations are required to submit a participation form to the Department of Revenue by November 1<sup>st</sup> each year that contains certified enrollment information for the year to which the credits apply.

**S.F. 566** increased the amount of Historic Preservation and Cultural and Entertainment District Tax Credits that may be awarded each year by the Iowa Department of Cultural Affairs. In addition, the credits were made fully refundable. During FY 2007 the amount of tax credits that could be awarded was limited to \$6.4 million per year with \$4.0 million reserved for projects located in Cultural and Entertainment Districts. Beginning with FY 2008 the annual award limit increases to \$10 million, for FY 2009 the limit increases to \$15 million, and for FY 2010 and succeeding years the limit increases to \$20 million. Of the total amount that may be awarded each year 10 percent is reserved for projects with a cost of \$500,000 or less and 40 percent is reserved for projects located in Cultural and Entertainment Districts. In addition, the legislation allows the claiming of some credits previously awarded for future years to be accelerated.

**S.F. 590** raised the amount of the Iowa Earned Income Tax Credit (EITC) from 6.5 percent to 7.0 percent of the federal Earned Income Tax Credit amount. In addition, the Iowa EITC was made fully refundable. The law change is effective in tax years beginning on or after January 1, 2007.

**S.F. 601** decreased the amount of Wage-Benefit Tax Credits that can be issued each fiscal year from \$10 million to \$4 million. The change became effective July 1, 2007 (FY 2008).

Summary information for all tax credit programs is provided in Appendices B and C. More detailed information on each tax credit program may be found on the Iowa Department of Revenue web site at the following address: <http://www.state.ia.us/tax/taxlaw/IDRTaxCreditsUsersManual.pdf>.

## Section 3: Tax Credit Awards and Claims

### Credits Awarded

Iowa has two types of tax credits, automatic and awarded. Automatic credits are not capped and may be claimed by any eligible taxpayer. Awarded credits require an application and a specific award in order for a taxpayer to claim the credit. Awarded credits may be uncapped or capped. For capped credits the total amount of credits that may be awarded may be limited by either tax year or fiscal year depending on the type of credit. More information about Iowa's tax credit programs is provided in Appendices B and C.

The amount of tax credits awarded has increased substantially between FY 2001 and FY 2007, the last year for which complete data is available. The large increase is due to greater utilization of existing programs and the creation of new tax credit programs. Between FY 2006 and FY 2007 the amount of tax credit awards increased from \$208.5 million to \$516.2 million, or by \$307.7 million (147.6%). Since 2000, 24 new tax credit programs have been created and the annual limits on several capped tax credit programs have been increased. Table 1 summarizes tax credit award amounts by credit program.

**Table 1: Tax Credit Awards by Fiscal Year**

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008*
Accelerated Career Education Program (ACE) <sup>†</sup>	\$684,059	\$2,784,552	\$2,900,752	\$3,900,872	\$5,814,485	\$6,000,000	\$6,000,000	\$6,000,000
Agricultural Assets Transfer Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$710,957	\$394,620
Assistive Device Tax Credit	\$0	\$2,500	\$0	\$0	\$0	\$0	\$0	\$0
Economic Development Region Revolving Fund Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$0	\$0
Endow Iowa Tax Credit <sup>†</sup>	n/a	n/a	n/a	\$1,003,773	\$2,000,000	\$2,000,000	\$2,000,000	\$391,310
Enterprise Zone Program	\$21,799,195	\$68,865,745	\$13,282,669	\$20,739,986	\$45,021,409	\$82,471,747	\$116,536,018	\$18,468,100
Enterprise Zone Program - Housing Component	\$7,428,328	\$9,871,966	\$4,744,197	\$16,460,721	\$16,546,536	\$25,387,544	\$1,684,049	\$6,189,900
Film Expenditure Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$350,000
Film Investment Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$350,000
High Quality Job Creation Program	n/a	n/a	n/a	n/a	n/a	\$44,735,648	\$301,779,131	\$82,623,569
Historic Preservation and Cultural and Entertainment District Tax Credit <sup>†</sup>	\$2,400,000	\$2,400,000	\$2,400,000	\$2,400,000	\$2,370,000	\$6,400,000	\$6,400,000	\$10,000,000
Iowa Industrial New Jobs Training Program (260E)	\$39,397,500	\$39,145,750	\$26,910,000	\$26,746,500	\$61,224,000	\$38,665,000	\$64,128,000	\$13,340,000
New Capital Investment Program	n/a	n/a	n/a	\$20,139,033	\$18,362,971	n/a	n/a	n/a
New Jobs and Income Program	\$39,714,446	\$24,995,065	\$47,523,776	\$40,433,473	\$45,518,278	n/a	n/a	n/a
Renewable Energy Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$0	\$0
School Tuition Organization Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$2,500,000	\$5,000,000
Soy-Based Transformer Fluid Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$17,062	\$29,374
Targeted Jobs Credit from Withholding	n/a	n/a	n/a	n/a	n/a	n/a	\$445,000	\$5,277,752
Venture Capital Tax Credit - Fund of Funds <sup>†</sup>	n/a	n/a	n/a	n/a	\$0	\$0	\$0	\$0
Venture Capital Tax Credit - Qualified Business or Seed Capital Fund <sup>†</sup>	n/a	n/a	\$374,419	\$719,535	\$824,872	\$2,137,276	\$3,404,713	\$1,753,233
Venture Capital Tax Credit - Venture Capital Fund <sup>†</sup>	n/a	n/a	\$200,448	\$384,600	\$185,625	\$742,740	\$580,223	\$0
Wage-Benefit Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	n/a	\$10,000,000	\$4,000,000
Wind Energy Production Tax Credit <sup>†</sup>	n/a	n/a	n/a	n/a	n/a	\$0	\$0	\$0
Total Credits Awarded Each Fiscal Year	\$111,423,528	\$148,065,578	\$98,336,261	\$132,928,493	\$197,868,176	\$208,539,955	\$516,185,154	\$154,167,858

<sup>†</sup> Final award numbers will not be available until the end of 2007 due to some of the awards being based on crop sharing agreements.

Source: Awarding Agencies

n/a = program not yet created, or discontinued

\*=incomplete fiscal year

<sup>†</sup>=tax credit programs that have capped awards



## Credits Claimed

**Income and Franchise Tax Credit Claims:** Currently, only limited data on tax credit claims is available. The data is limited because many credits are aggregated on individual and corporate tax forms. Table 2 reports the tax credit claims data that is currently available. Beginning with tax year 2006, taxpayers are required to document tax credit claims not separately listed on the IA1040 (for individuals), the IA 1120 (for corporations), the IA 1120F (for financial institutions), and the insurance premium tax annual return by filing form IA148 Tax Credits Schedule. A preliminary analysis of data provided on this new form is summarized and discussed in Section 6 of the report.

Individual and corporation income tax credit claims are summarized in Table 2 for the years 2000 through 2006. Between 2000 and 2006 credits claimed on individual income tax returns have increased from \$48.3 million to \$123.6 million. During the past year the amount of tax credits claimed on individual income tax returns increased by \$18.5 million (17.6%). Tax credit claim information is available for C-corporations only through tax year 2005, because not all 2006 returns have been submitted yet. Between 2000 and 2005 corporate tax credit claims increased from \$36.5 million to \$45.1 million.

**Sales and Use Tax Refund Claims:** Four tax credit programs authorize award recipients to file for refunds for sales and use tax paid to contractors and subcontractors working on approved projects for which sales and use tax was paid on purchased materials. The four programs for which sales and use tax refunds are authorized are:

- Enterprise Zones (including Housing Enterprise Zone projects)
- New Jobs and Income Program
- New Capital Investment Program
- High Quality Job Creation Program

Information on sales and use tax refund claims is summarized by program from FY 2000 through FY 2007 and for FY 2008 through November in Table 3. The amount of such refunds totaled only \$141 thousand during FY 2000. During FY 2007 the amount of sales and use tax refunds associated with business tax incentive programs was over \$8.0 million.

**Withholding Tax Credit Claims:** There are five tax credits that can be claimed against the withholding tax. Table 4 shows withholding tax credit claims by quarter since January 2005. The programs for which withholding tax credits may be claimed are:

- Iowa New Jobs Credit (260E) provides funding to employers to train new employees through agreements with community colleges.
- Supplemental Jobs Credit increases funds available through the New Jobs Credit for employers that meet certain wage and benefit or location criteria.
- Accelerated Career Education (ACE) Credit allows employers to sponsor training slots at community colleges.
- Housing Assistance Credit allows businesses to offer down payment or rental assistance to employees in new jobs.
- Targeted Jobs Credit, a new credit which began in 2007, provides funding for urban renewal projects for the benefit of employers through agreements with pilot project cities.

The program that accounts for the largest share of withholding tax credit claims is the Iowa Industrial New Jobs Training Program (260E). Under this program businesses may divert withholding taxes equal to either 1.5 percent or 3 percent of gross payroll depending on whether wages covered by the project surpass thresholds established each year by the Department of Economic Development. To qualify for the credit businesses must be approved by the Department of Economic Development and they must enter into a training agreement with a community college. Businesses diverting withholding taxes for employee training are required to report the amounts diverted on quarterly withholding tax returns filed with the Department. Also, each quarter community

**Table 2: Tax Credit Claims by Tax Year**

	2000	2001	2002	2003	2004	2005	2006
Total Individual Income Tax Credits	\$48,279,743	\$51,410,455	\$72,705,744	\$81,418,844	\$84,959,270	\$105,116,138	\$123,595,592
Child & Dependent Care Tax Credit	\$6,396,628	\$6,236,660	\$6,160,402	\$8,354,236	\$8,120,963	\$8,241,622	\$9,835,214
Early Childhood Development Tax Credit	n/a	n/a	n/a	n/a	n/a	n/a	\$476,293
Earned Income Tax Credit	\$6,142,575	\$6,504,698	\$8,304,908	\$8,534,392	\$8,902,719	\$9,800,348	\$12,179,506
Tuition and Textbook Tax Credit	\$11,453,646	\$12,379,883	\$13,138,193	\$13,772,790	\$14,267,756	\$15,235,560	\$15,190,550
Other Nonrefundable Tax Credits	\$23,228,165	\$24,668,908	\$42,394,881	\$46,272,542	\$49,359,183	\$65,243,453	\$79,664,459
Other Refundable Tax Credits	\$1,058,729	\$1,620,306	\$2,707,360	\$4,484,884	\$4,308,649	\$6,595,155	\$6,249,570

	2000	2001	2002	2003	2004	2005	2006*
Total Corporate Income Tax Credits	\$36,464,918	\$34,575,929	\$32,350,438	\$34,686,224	\$37,735,085	\$45,104,073	\$6,573,522
Other Credits	\$9,376,136	\$7,271,766	\$2,744,856	\$2,633,556	\$3,180,617	\$2,780,875	\$441,946
Iowa Industrial New Jobs Income Tax Credit (260E)	\$1,833,421	\$1,875,798	\$2,163,943	\$2,297,855	\$1,517,117	\$5,159,471	\$2,002,878
Research Activities Credit	\$25,255,361	\$25,428,365	\$27,441,639	\$29,754,813	\$33,037,351	\$37,163,727	\$4,128,698

Source: IDR data

\*=incomplete data for tax year

n/a=program not yet created, or discontinued

**Table 3: Sales & Use Tax Refunds by Tax Credit Program by Fiscal Year**

	Enterprise Zone	Housing-Enterprise Zone	New Jobs & Income Program	New Capital Investment Program	High Quality Job Creation Program	Total Refunds
<b>FY 2000</b>	\$104,215	\$36,527	\$0	n/a	n/a	\$140,742
<b>FY 2001</b>	\$367,794	\$213,055	\$893,857	n/a	n/a	\$1,474,706
<b>FY 2002</b>	\$859,141	\$237,998	\$545	n/a	n/a	\$1,097,684
<b>FY 2003</b>	\$1,546,062	\$304,471	\$447,793	n/a	n/a	\$2,298,326
<b>FY 2004</b>	\$991,620	\$416,615	\$753,322	\$0	n/a	\$2,161,557
<b>FY 2005</b>	\$711,623	\$569,971	\$653,280	\$70,059	n/a	\$2,004,933
<b>FY 2006</b>	\$482,531	\$881,387	\$404,974	\$924,309	\$0	\$2,693,201
<b>FY 2007</b>	\$434,226	\$1,911,803	\$1,816,215	\$3,878,434	\$4,258	\$8,044,936
<b>FY 2008*</b>	\$129,330	\$459,062	\$793,015	\$156,824	\$1,447,287	\$2,985,518

Source: IDR data

\*incomplete fiscal year

n/a=program not yet created, or discontinued

**Table 4: Withholding Tax Credits Claimed by Quarter**

Quarter	Number of Claims	Total Tax Credits	New Jobs Tax Credit (260E)	Supplemental Jobs Tax Credit	Targeted Jobs Tax Credit	ACE Tax Credit	Housing Assistance Tax Credit	Incorrectly Claimed Tax Credits	Total of Paper Filed Returns Without Credit Detail
3/31/2005	482	\$8,233,741	\$4,063,684	\$420,250	\$0	\$809,486	\$0	\$700	\$2,938,700
6/30/2005	564	\$7,991,029	\$5,553,578	\$273,857	\$0	\$682,368	\$0	\$700	\$1,480,529
9/30/2005	611	\$7,411,378	\$5,327,985	\$244,726	\$0	\$1,736,431	\$0	\$700	\$101,538
12/31/2005	751	\$10,994,367	\$8,005,597	\$882,652	\$0	\$1,913,263	\$0	\$61,158	\$131,699
3/31/2006	650	\$8,531,180	\$6,619,021	\$491,698	\$0	\$1,307,077	\$0	\$13,076	\$100,334
6/30/2006	718	\$11,304,320	\$9,181,820	\$547,033	\$0	\$1,480,339	\$0	\$90,152	\$5,242
9/30/2006	810	\$13,811,989	\$11,795,052	\$567,599	\$0	\$1,191,169	\$0	\$230,828	\$27,424
12/31/2006	915	\$15,194,949	\$12,637,544	\$843,696	\$0	\$884,472	\$0	\$1,256,395	\$5,548
3/31/2007	765	\$10,470,456	\$8,018,718	\$883,700	\$1,864	\$1,221,058	\$0	\$331,883	\$12,565
6/30/2007	726	\$10,863,678	\$7,990,837	\$904,418	\$5,926	\$1,824,760	\$0	\$127,782	\$4,498
9/30/2007	665	\$9,243,942	\$7,099,723	\$901,179	\$71,328	\$1,085,491	\$0	\$96,619	\$2,584
FY 2006	2,730	\$38,241,245	\$29,134,423	\$2,166,109	\$0	\$6,437,110	\$0	\$165,086	\$338,813
FY 2007	3,216	\$50,341,072	\$40,442,151	\$3,199,413	\$7,790	\$5,121,459	\$0	\$1,946,888	\$50,035
YTD FY 2008	665	\$9,243,942	\$7,099,723	\$901,179	\$71,328	\$1,085,491	\$0	\$96,619	\$2,584
CY 2005	2,408	\$34,630,515	\$22,950,844	\$1,821,485	\$0	\$5,141,548	\$0	\$63,258	\$4,652,466
CY 2006	3,093	\$48,842,438	\$40,233,437	\$2,450,026	\$0	\$4,863,057	\$0	\$1,590,451	\$138,548
YTD CY 2007	2,156	\$30,578,076	\$23,109,278	\$2,689,297	\$79,118	\$4,131,309	\$0	\$556,284	\$19,647

Source: IDR data

**Table 5: Iowa Industrial New Jobs Training Program (260E) Award and Claim Information**

	Amount of 260E Credits Awarded by DED	Amount Reported Paid to the Community Colleges	Amount of 260E and Supplemental Credit Correctly Claimed on Withholding Returns
FY 2001	\$39,397,500	n/a	n/a
FY 2002	\$39,145,750	n/a	n/a
FY 2003	\$26,910,000	n/a	n/a
FY 2004	\$26,746,500	\$40,667,329	n/a
FY 2005	\$61,224,000	\$42,218,828	n/a
FY 2006	\$38,665,000	\$42,763,460	\$31,300,532
FY 2007	\$64,128,000	\$46,110,828	\$43,641,564
YTD FY 2008	\$13,340,000	\$10,038,900	\$8,000,902

Source: IDR data and Data reported by the Department of Economic Development and Community Colleges

colleges are required to report to the Department payments they receive under the program from qualifying businesses. These amounts are summarized by fiscal year beginning with FY 2001 in Table 5.

## Section 4: Contingent Liabilities Reports

Beginning in December 2006, quarterly Tax Credit Contingent Liabilities Briefs have been prepared for the members of the State's Revenue Estimating Conference. The Revenue Estimating Conference is the three member group that adopts official State General Fund revenue estimates. These briefing papers are posted to the Department of Revenue web site at <http://www.state.ia.us/tax/taxlaw/creditstudy.html>.

Table 6 presents each tax credit program's estimated impacts for FY 2005 through FY 2007 and tax credit contingent liability projections for FY 2008 through FY 2012. The future year projections are designated as contingent liabilities to reflect the possibility that all awarded credits may not be exercised.

Table 6 is divided into two parts. The first part provides historic and projected tax credit claim estimates for programs subject to statutory limits. The future year projections for tax credits subject to fiscal year statutory limits equal these limits. For tax credits subject to calendar year award limits the projections reflect the estimated potential claims on a fiscal year basis. The second part of the table provides historical claims and future year contingent liability projections for tax credits not subject to statutory limits. The projections for these tax credits are based on a variety of methodologies identified in the notes below the table. For tax credits awarded by the Department of Economic Development under the Enterprise Zone Program and the High Quality Job Creation Program the projections only reflect award amounts as of November 27, 2007. Given that awards made under these two programs are at the discretion of the Iowa Economic Development Board it is not possible to project future award amounts.

Beginning with the October 2007 Revenue Estimating Conference, the Department of Revenue has factored in adjustments for tax credits in briefing materials prepared for the members of the Revenue Estimating Conference and for Department of Management and Legislative Services Agency staffs. This has been done because the growth of tax credits over the past several years has complicated the estimation of State tax revenues. Traditional econometric models cannot directly incorporate credit impacts. Therefore, adjustments for tax credit impacts must be made outside the revenue estimation models. Prior to each Revenue Estimating Conference the Department of Revenue prepares a summary of law change and tax credit adjustments for each of the General Fund tax revenue sources.

## Section 5: Evaluation Study Summaries

Beyond tracking tax credit awards and claims and projecting contingent tax credit liabilities for future years the Tax Credits Tracking and Analysis Program is charged with evaluating individual tax credit programs. These evaluations are intended to answer four types of questions:

- Do the federal government and other states offer similar types of tax credits and how do these other credits compare to Iowa's tax credit?
- To what extent are the tax credit programs utilized and by what types of taxpayers?
- What discernable impacts do the tax credits have on the State's economy?
- What would be the fiscal impacts of different types of modifications to the existing tax credit program?

One to three evaluation studies are expected to be undertaken each year. During 2007 an evaluation of the Earned Income Tax Credit was completed. Two other evaluation studies focusing on the Research Activities Tax Credit and the Historic Preservation and Cultural and Entertainment District Tax Credit are currently in progress and are expected to be completed during early 2008. Credit programs under consideration for the next studies are the Ethanol Blended Gasoline Tax Credit and Iowa Industrial New Jobs Training Program (260E) Credit. Brief summaries of the studies undertaken during 2007 are provided below:

**Table 6: Tax Credit Contingent Liabilities Projection**

	History			Forecast				
<b>Capped Programs</b>	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Accelerated Career Education Tax Credit	\$5,814,485	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000	\$6,000,000
Cow-Calf Tax Credit	\$1,770,342	\$1,770,342	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Economic Development Region Revolving Fund Tax Credit	\$0	\$0	\$0	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Endow Iowa Tax Credit	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
Historic Preservation and Cultural and Entertainment District Tax Credit <sup>2</sup>	\$2,232,371	\$1,783,916	\$5,147,653	\$4,981,280	\$10,142,428	\$13,581,132	\$15,951,654	\$15,504,494
Renewable Energy Tax Credit <sup>3</sup>	\$0	\$0	\$0	\$4,400,000	\$5,400,000	\$5,500,000	\$5,500,000	\$5,500,000
School Tuition Organization Tax Credit	\$0	\$0	\$2,500,000	\$5,000,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000
Soy-Based Transformer Fluid Tax Credit <sup>4</sup>	\$0	\$0	\$17,062	\$102,938	\$0	\$0	\$0	\$0
Venture Capital Tax Credit - Iowa Fund of Funds	\$0	\$0	\$0	\$0	\$0	\$20,000,000	\$20,000,000	\$20,000,000
Venture Capital Tax Credit - Qualified Business or Community-Based Seed Capital Fund <sup>5</sup>	\$0	\$374,419	\$719,535	\$824,872	\$2,137,276	\$3,404,713	\$1,753,233	\$785,952
Venture Capital Tax Credit - Venture Capital Funds <sup>5</sup>	\$0	\$200,448	\$384,600	\$185,625	\$742,740	\$580,223	\$418,727	\$418,727
Wage-Benefit Tax Credit	\$0	\$0	\$0	\$10,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
Wind Energy Production Tax Credit <sup>6</sup>	\$0	\$0	\$0	\$12,505,000	\$14,069,000	\$14,069,000	\$14,069,000	\$14,069,000
<b>TOTAL OF CAPPED PROGRAMS</b>	<b>\$11,817,198</b>	<b>\$12,129,125</b>	<b>\$18,768,850</b>	<b>\$49,999,715</b>	<b>\$55,991,444</b>	<b>\$80,635,068</b>	<b>\$81,192,614</b>	<b>\$79,778,174</b>

<sup>2</sup> Estimates are based on data received from awarding agency and award recipients. Timing adjustments have been made to account for tax types against which the credits can be claimed.

<sup>3</sup> Estimates are based on full utilization of capacity limits set within the legislation of SF 390, 2005 Legislative Session. No applications were received in FY 2007.

<sup>4</sup> Estimates are based on the aggregate cap of the program and awards already issued.

<sup>5</sup> Once the award has been issued to the taxpayer, the taxpayer is required to wait three years before claiming the credit.

<sup>6</sup> Estimates are based on full utilization of eligible wind-generation capacity, which is capped. No applications were received in FY 2007.

**Table 6 Continued: Tax Credit Contingent Liabilities Projection**

Uncapped Programs	History			Forecast				
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Agricultural Assets Transfer Tax Credit <sup>7</sup>	\$0	\$0	\$0	\$268,200	\$598,674	\$912,237	\$918,857	\$1,258,626
Assistive Device Tax Credit <sup>8</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Biodiesel Blended Fuel Tax Credit <sup>9</sup>	\$0	\$0	\$540,000	\$1,450,000	\$3,080,000	\$3,790,000	\$4,550,000	\$5,150,000
Child & Dependent Care Tax Credit <sup>10</sup>	\$8,120,963	\$8,241,622	\$9,835,214	\$9,575,683	\$9,445,766	\$9,377,545	\$9,246,753	\$9,054,057
E85 Gasoline Promotion Tax Credit <sup>9</sup>	\$0	\$0	\$200,000	\$1,700,000	\$5,000,000	\$7,400,000	\$11,200,000	\$8,600,000
Early Childhood Development Tax Credit <sup>11</sup>	\$0	\$0	\$476,293	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Earned Income Tax Credit <sup>10</sup>	\$8,902,719	\$9,800,348	\$12,179,506	\$21,531,541	\$22,285,014	\$21,476,831	\$22,282,181	\$20,767,593
Enterprise Zone Program <sup>12</sup>	\$25,198,420	\$32,638,561	\$44,952,150	\$60,678,504	\$68,574,975	\$69,901,202	\$62,461,061	\$50,147,472
Ethanol Blended Gasoline Tax Credit <sup>13</sup>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Ethanol Promotion Tax Credit <sup>9</sup>	\$0	\$0	\$0	\$0	\$0	\$9,300,000	\$10,200,000	\$11,400,000
Film, Television, and Video Project Promotion Program <sup>14</sup>	\$0	\$0	\$0	\$122,000	\$455,000	\$702,000	\$718,146	\$734,663
High Quality Job Creation Program <sup>12</sup>	\$0	\$0	\$0	\$8,947,130	\$69,302,956	\$85,827,670	\$85,827,670	\$85,827,670
Iowa Industrial New Job Training Program (260E) <sup>15</sup>	NA	\$31,300,532	\$43,641,564	\$45,507,823	\$47,453,890	\$49,483,177	\$51,599,244	\$53,805,800
New Capital Investment Program <sup>16</sup>	\$0	\$4,027,807	\$7,700,401	\$7,700,401	\$7,700,401	\$7,700,401	\$3,672,594	\$0
New Jobs and Income Program <sup>16</sup>	\$22,446,657	\$30,533,352	\$39,637,008	\$31,694,118	\$26,695,105	\$17,190,350	\$9,103,656	\$0
Research Activities Tax Credit <sup>17</sup>	\$34,944,755	\$39,436,337	\$42,361,620	\$46,808,609	\$51,725,345	\$57,161,612	\$63,172,481	\$69,818,872
Soy-Based Cutting Tool Oil Tax Credit <sup>18</sup>	\$0	\$0	\$60,000	\$60,000	\$0	\$0	\$0	\$0
Targeted Jobs Tax Credit from Withholding <sup>19</sup>	\$0	\$0	\$7,790	\$1,206,000	\$1,910,000	\$2,690,000	\$2,771,000	\$2,854,000
Tuition and Textbook Tax Credit <sup>10</sup>	\$14,267,756	\$15,235,560	\$15,190,550	\$15,986,451	\$16,322,551	\$16,702,374	\$17,169,766	\$17,644,256
TOTAL OF UNCAPPED PROGRAMS	\$113,881,271	\$171,214,119	\$216,782,096	\$253,736,461	\$331,049,677	\$360,115,399	\$355,393,408	\$337,563,008
TOTAL OF ALL PROGRAMS	\$125,698,469	\$183,343,244	\$235,550,946	\$303,736,176	\$387,041,121	\$440,750,467	\$436,586,022	\$417,341,182

<sup>7</sup> Estimates are based on data from the awarding agency. Future awards are projected in these estimates based on estimated growth of the program.

<sup>8</sup> Only one award has been made under this program since its inception.

<sup>9</sup> Estimates are based on the Fiscal Note for HF 2754, 2006 Legislative Session.

<sup>10</sup> Estimates are based on the IDR individual income tax model simulation.

<sup>11</sup> Estimates are based on 2007 tax year claims and the expectation of little to zero growth in claims of this credit.

<sup>12</sup> Estimates are based on information from the awarding agency and include only the potential claims of awards made as of 11/27/07. No attempt is made to project future awards.

<sup>13</sup> Estimates are based on the compound annual growth rate (CAGR) of claims captured from the IA 6478 schedule by the data entry project.

<sup>14</sup> Estimates are based on the Fiscal Note for HF 892, 2007 Legislative Session less the amount estimated by IDR for the income exclusion provision of the bill.

<sup>15</sup> Estimates are based on credits claimed multiplied by the compound annual growth rate of the amount paid to the community colleges which is reported in Table 3.

<sup>16</sup> Estimates are based on information from the awarding agency. This program ended 7/1/05 and it is expected that all awards will be claimed before FY 2012.

<sup>17</sup> Estimates are based on the CAGR of individual claims captured from the IA 128 and 128A schedules and the CAGR from the Schedule C on corporate returns.

<sup>18</sup> Estimates are based on the Fiscal Note for SF 389, 2005 Legislative Session.

<sup>19</sup> Estimates are based on the Fiscal note for HF 2731, 2006 Legislative Session

## Earned Income Tax Credit Study

The Iowa Earned Income Tax Credit (EITC) was enacted during 1989 and took effect in 1990. Initially the Iowa EITC equaled five percent of the federal EITC. The next year the Iowa EITC was increased to 6.5 percent of the federal EITC amount. Unlike the federal credit, which is refundable, initially the Iowa credit was not refundable. During the 2007 legislative session, the Iowa EITC was made refundable and increased to 7 percent of the federal credit amount.

Prior to the 2007 legislative session, the Department had received numerous requests to analyze alternative ways in which changes could be made to the Iowa individual income tax to reduce the burden on low income households. In addition, interest had been expressed in determining to what extent recipients of income support programs administered by the Department of Human Services (DHS) were taking advantage of the Earned Income Tax Credit. The study of the Iowa EITC was undertaken in response to these requests. The study was undertaken in collaboration with staff from the Department of Human Services. DHS personnel that provided assistance on the study and in reviewing the report are Matthew Haubrich, Robert Krebs, and Carol Stratemeyer. The final report was issued in February 2007. The report is available on the Department's web site at <http://www.state.ia.us/tax/taxlaw/creditstudy.html>.

Among the major findings of the study are:

- At the time the study started, 19 states and the District of Columbia had Earned Income Tax Credits. With the exception of Minnesota, all the other state EITCs were determined as a percentage of the federal EITC. The state EITC rates ranged from 4.92% (Maine) to 43.0% (Wisconsin) of the federal credit amount. Only four states (Delaware, Maine, Virginia, and Iowa) had nonrefundable credits.
- The majority of EITC filers are unmarried.
- In the three years that were examined, there were discrepancies between single filers filing for both the federal and the state EITC and single filers filing for only federal EITC. Among filers that were claiming only the federal EITC, the majority of filers have either one or no dependents. The likely reason for these disparities was due to the lack of refundability of the state credit. It is probable that many single filers did not have enough tax liability to claim the nonrefundable state EITC.
- The majority of claimants were between the ages of 21 and 45, which were households most likely to have children at home. Also, there was a greater likelihood of filing for only the federal credit when a primary filer was younger.
- There was a greater utilization of the DHS Family Investment Program (FIP) and Food Assistance (FA) programs in the urban counties than in the rural counties in the State of Iowa in all three years that the data were evaluated. On the other hand, the federal and state EITC was more frequently claimed in rural counties than in urban counties in all three years. An explanation of this data may be that it was more difficult to get access to FIP and FA programs because not all rural counties have full-time DHS offices. In contrast, access to EITC is available to every taxpayer regardless of location, as long as the taxpayer is educated about the credit.
- Among six alternatives looked at by the Department for providing increased assistance to low income households through the tax code making Iowa's EITC refundable was found to provide the greatest assistance to those with adjusted gross income below \$40,000.

As noted above, the Legislature last session made the Iowa EITC refundable and increased the credit to 7 percent of the federal amount. This legislation is expected to increase the amount of credit that may be claimed by 153,487 households and result in 14,356 more households being able to benefit from the credit due to it now being refundable. In addition, the Department of Revenue and the Department of Human Services are collaborating in establishing procedures for identifying the amount of EITC refunds paid to Family Investment Program (FIP) recipients, which may be used in satisfying Iowa's federal maintenance of effort requirement.

## Historic Preservation and Cultural and Entertainment District (HPCED) Tax Credit Study

Iowa enacted the Historic Preservation Tax Credit in 2000. The original legislation limited tax credit awards under this program to \$2.4 million per fiscal year. Legislation enacted in 2003 increased the annual award limits to \$2.9 million for fiscal years 2006 and 2007 designating the additional \$500,000 each year for properties located in Cultural and Entertainment Districts. In 2005, the annual award limit was increased to \$6.4 million for fiscal years 2006 through 2015 with \$4 million each year earmarked for properties located in Cultural and Entertainment Districts. During the 2007 legislative session, the credit award limit was again increased. The annual award limits were increased to \$10 million for FY 2008, to \$15 million for FY 2009, and to \$20 million for FY 2010 and subsequent years. Also, the recent legislation reserved 10 percent of the annual awards for small projects (cost \$500,000 or less) and 40 percent for projects located in Cultural and Entertainment Districts. Furthermore, credit awards in excess of the recipients' tax liabilities were made fully refundable in the year for which the credits were granted or may be carried forward to future tax years. In addition, the credits remain transferable.

The study of this program was initiated in the fall of 2006. This credit program was selected for study because of the high level of demand for the credits and in response to requests for information from legislators and others interested in the utilization of the credit and its impact on the local economies of communities where affected properties were located. The inability to compel award recipients to respond to requests for information on their projects and the limited availability of property valuation data in some communities has impeded completion of all elements of the study as initially planned.

Similar to other evaluation studies, an advisory committee was established. Members of the advisory committee include: Jack Porter (Department of Cultural Affairs), Tim Waddell (Department of Economic Development), and Thom Guzman (Department of Economic Development – Main Street Program).

Among the major findings of this study so far are:

- In addition to the federal government, 29 states (including Iowa) offer tax credits for the preservation of historic properties. The federal credit began in 1976. Eighteen of the state credit programs have been established since 2000. For most state programs the credit equals between 20 and 30 percent of qualifying expenditures. Iowa's credit, which equals 25 percent, is in the middle of the range.
- Through the end of FY 2007, 148 credits totaling \$57.882 million had been awarded to 80 different properties. Forty-eight of the credit awards with a value of \$13.182 million have been sold by the original recipient to investors. The distribution of transferred credits by type of purchaser is banks (\$2,725,000), individuals (\$259,000), and insurance companies (\$10,198,000).
- The three counties with the highest number of awards since inception of the program are: Dubuque (17), Polk (12), and Scott (11). The four counties with the highest amount of awards are: Scott (\$14,515,000), Polk (\$12,720,000), Dubuque (\$9,133,000), and Woodbury (\$7,896,000).
- A questionnaire was mailed to the recipients of 41 tax credit awards for which the projects had been completed. The owners of only 23 properties responded after two mailings and several follow-up phone calls. The purpose of the questionnaire was to determine: (1) to what extent the State tax credits leveraged private investment, (2) the impact of tax credits on property values, and (3) the impact of tax credits on economic activity in the vicinity of assisted properties.
- The total cost of the projects for the 23 properties for which questionnaires were returned equaled \$76.3 million. State tax credits covered \$12.1 million (15.9%) of the costs; federal credits covered \$11.2 million (14.7%); low-cost housing tax credits covered \$12.0 million (15.8%); Enterprise Zone Program tax credits covered \$2.3 million (3.0%); and other public sources covered \$12.2 million (16.0%) of the cost. The amount of private investment for these projects equaled \$26.9 million (35.3%).
- Due to the low response rate for the questionnaire a case study focusing on completed projects located in the City of Dubuque was undertaken. Total project expenditures for the six properties included in this analysis equaled \$27.0 million. For these properties the distribution of costs covered by different funding sources is State HPCED credits (14.3%), federal HP credits (14.0%), other State and local assistance (17.3%), and private investment (54.4%).



- The assessed values of the six Dubuque properties increased from \$1,136,620 the year prior to project completion to \$4,434,120 the year of project completion (by 290%) to \$5,985,430 the year following project completion (by 427%).
- Retail sales by businesses located in downtown Dubuque were used as a measure of the impact of the six historic preservation projects on the local economy. Between 2000 and 2005 average taxable retail sales of businesses located in downtown Dubuque grew by 36.8 percent and within one-block radii of the six properties average retail sales over the same period increased by 47.6 percent in comparison. Over the same five years average sales for retailers located in the entire City of Dubuque increased by 36.1%, while statewide average taxable sales of retailers increased by 26.2%.

Many issues related to the economic impact of State historic preservation tax credits still need to be addressed. It has been proposed that a future study compare the impacts of historic preservation projects undertaken with and without the benefit of State credits. Also, hopefully as more projects are completed and more complete information on these projects and the communities in which they are located becomes available it will be possible to better determine the economic return provided by the Historic Preservation and Cultural and Entertainment District Tax Credits.

### Research Activities Tax Credit Study

The Iowa Research Activities Tax Credit (RAC) took effect in 1985, although the first claim was not made until the 1986 tax year. The Iowa RAC allows taxpayers to take a refundable tax credit equal to 6.5 percent of qualified research expenditures made within the State above a base amount. The definition of qualified research expenditures and the calculation of the base amount are coupled with rules established as part of the federal research expenditures credit. In 2000, the legislature added an alternative method for computing the credit called the alternative incremental research credit (AIRC). The RAC is considered an automatic credit, where any taxpayer with qualifying expenditures is eligible for the credit. However, as part of various Department of Economic Development tax credit programs, it is possible for firms to be awarded a supplemental RAC that could as much as double their RAC claim.

The RAC was selected as the program for the Department's third evaluation study in response to legislation proposed during the 2007 session that would have required more extensive public reporting for this credit. The study was motivated by the desire to inform citizens on tax credits the State is granting to firms, but the concern that the disclosure of tax return information could compromise confidentiality between the taxpayer and the State. As a compromise, the Department agreed to complete a study of this tax credit.

As part of the evaluation, an advisory committee has been convened to provide input and advice on the report's scope and analysis. The panel includes Lane Palmer and Amy Johnson from the Iowa Department of Economic Development, Joel Lunde of the Iowa Department of Management, Dr. Peter Fisher of the University of Iowa, and Edward Wallace of the Iowa Taxpayers Association. A first draft of the report has been reviewed by the panel and a final draft should be completed by the end of the year. The plan is to release the final report around the start of the legislative session in January 2008.

Preliminary findings of the study are:

- Thirty-eight states currently have some form of research tax credit. Although the Iowa rate falls somewhere in the middle of the range offered across the states, Iowa is one of only four states with a refundable credit.
- In tax year 2005, the latest complete year for corporate returns, corporate RAC claims topped \$37 million dollars. Since the beginning of the credit through 2005, over \$262 million in claims have been made by corporations performing research in Iowa.
- Individual taxpayers can also make RAC claims, although data have only been collected on those claims since 2002. In tax year 2005, claims that have been identified on individual income tax returns equal \$2.3 million, with total claims of \$6.3 million identified between 2002 and 2005.
- For corporate claimants, 81 percent of claims have been made by firms in manufacturing industries, with machinery manufacturing, computer and electronic product manufacturing, and chemical manufacturing as the top industry groups for total dollars claimed over the last 20 years.

- In recent years, 11 percent of claims have been made under the AIRC method, accounting for almost 50 percent of total dollars claimed.
- Since 2002, around one-third of RAC claims received each year are supplemental credits awarded by the Department of Economic Development.

Additional analysis will attempt to discern the economic impact of the RAC by comparing outcomes in the State to neighboring states and other top-manufacturing employment states. Also, various options to expand or contract the size of the credit will be considered and fiscal impact estimates provided.

## Section 6: Other Activities

### Comparison of Major Iowa Tax Credit Program Provisions

During the 2007 legislative session members of the House Economic Growth Committee requested a comparison of administrative features and requirements for all tax credit programs. Following is a summary of the comparison.

The summary addresses the following nine administrative features of these programs:

- Eligibility – Addresses whether the credit must be awarded by some government entity or if it may be claimed automatically by any taxpayer that meets certain statutory requirements.
- Capped – Pertains to whether on not an annual or multi-year dollar limit is imposed on the amount of credits that may be awarded or claimed.
- Time Basis of Cap – Indicates whether credit limits are on a fiscal year, calendar year or multi-year basis.
- Refund – Pertains to whether the credit is refundable, meaning the taxpayer will receive a refund check from the State for the amount of such credits that exceed the taxpayer's tax liability, or non-refundable, meaning the credit may only be claimed to the extent of the taxpayer's tax liability.
- Transfer – Indicates whether or not the credit may be sold.
- Pass-Through – Indicates credits that are available to pass-through entities (i.e., partnerships, limited liability companies, and S-corporations), which means they will be claimed on individual income tax returns rather than on business tax returns.
- Tax Taken Against – Indicates the taxes against which a credit may be claimed, which are denoted as follows: corporate income tax (C), franchise tax (F), individual income tax (I), insurance premium tax (N), moneys and credits tax (M), property tax (P), utility replacement tax (R), sales tax (S), and withholding tax (W).
- Carry Forward – Indicates the number years that unused credit claims may be carried forward.
- Allocation Method for Cap – Pertains to the method used to determine the amount of credits allowed each eligible claimant for credit programs that are capped at a specific dollar amounts.

A table summarizing these program features is provided in Appendix D.

### Tax Expenditure Study Update

In the fall of 2001 the Department published the State's first ever Tax Expenditure Study. That study identified 280 provisions of the Code of Iowa pertaining to individual income tax, corporate income, sales tax and use tax that qualified under the definition of tax expenditures. Tax expenditures are defined as preferential provisions in tax law that produce reductions in tax liability from what would be imposed without the provisions. Such provisions include exclusions, exemptions, deductions, credits, and deferrals, and they generally apply to either a limited subset of the population of taxpayers or to a limited subset of economic transactions. The federal government, the District of Columbia and 29 other states also produce tax expenditure studies.

The report published in 2001 provides estimates of tax expenditures in terms of 2000 law. Of the 280 tax expenditures identified in the Iowa Tax Expenditures 2000 report it was only possible to provide estimates for 218 tax law provisions. Also, due to data limitations some of the estimates covered multiple tax law provisions resulting in only 189 separate impact estimates. The combined impact of the tax expenditures estimated in the Iowa Tax Expenditure 2000 report equals \$3.86 billion. The report may be found at <http://www.state.ia.us/tax/taxlaw/taxexp01.pdf>.

Since 2000 forty-three new tax expenditures have been enacted. The new provisions break down by tax type as follows:

- Corporate income tax (2)
- Individual income tax (9)
- Corporate or individual income tax (14)
- Sales and use tax (18)

The new tax expenditure study will provide estimates based on 2005 law for individual and corporate income tax. The sales and use tax estimates will reflect calendar year 2005 economic data. The Iowa Tax Expenditure 2005 report addresses 344 provisions of the Code of Iowa. The provisions break down by tax type as follows:

- Corporate income tax (10)
- Individual income tax (152)
- Corporate or individual income tax (46)
- Sales and use tax (136)

Through the end of November 111 estimates have been completed. The Iowa Tax Expenditure 2005 report is expected to be completed before the end of FY 2008.

### Tax Credit Form Data Capture Summary

Beginning with tax year 2006 taxpayers claiming credits against individual income tax, corporate income tax, franchise tax, or insurance premium tax, unless separately itemized on the IA 1040 or the IA 1120, are required to file the IA 148 Tax Credits Schedule. Previously, only total claim amounts for any of 15 nonrefundable credits and 11 refundable credits were required to be provided when filing annual tax returns. The IA 148 requires taxpayers filing for these 26 credits to separately identify the amount of credit being claimed by credit. If multiple claims for the same credit type are claimed each claim must be listed separately. For awarded credits claimants are required to provide the tax credit certificate number provided to the taxpayer by the Department that awarded the credit or provided by the Department of Revenue for transferred credits. In addition, this form requires taxpayers claiming credits awarded to pass-through entities (partnerships, limited liability companies, and S-corporations) to identify their ownership interest in each entity from which they have received a prorated share of tax credits.

Information provided on the 2006 IA 148 form is still being analyzed and a separate report will be prepared when the analysis is complete. However, results of a preliminary analysis of the data are presented in Table 7. Overall, 16,227 IA148 forms have been filed so far for tax year 2006. Almost all of the Tax Credit Schedules filed so far (98.3%) have been filed with individual income tax returns. The taxpayers filing the IA 148 form claimed \$51.2 million of non-refundable credits and \$5.4 million of refundable credits. Individual income taxpayers account for \$46.7 million (91.3%) of the nonrefundable tax credit claims and for \$4.0 million (75.1%) of the refundable tax credit claims. Most large corporate income tax credit claims for tax year 2006 will not be filed until next fall.

Not all taxpayers required to file the IA 148 form appear to have complied with the new requirement. For example, the \$46.7 million in nonrefundable credits shown on the IA 148 forms filed by individual income taxpayers accounts for only 71.6 percent of the total amount of nonrefundable credits claimed on all individual income tax returns as shown in Table 2. Also, 97 of the forms filed by individuals did not provide adequate information to be able to identify the credit being claimed.

**Table 7: All Tax Credit Claims for Form IA 148**

Tax Credit	Number of Claims	Nonrefundable Amount Claimed	Nonrefundable Amount Carried Forward	Nonrefundable Amount Expired	Refundable Amount Claimed
No Tax Credit Detail	105	\$123,430	\$34,502	\$0	\$33,319
<b>Nonrefundable Tax Credits</b>					
Economic Development Region Revolving Fund Tax Credit	22	\$76,917	\$49,481	\$0	\$0
Endow Iowa Tax Credit	565	\$1,210,803	\$472,879	\$0	\$102
Franchise Tax Credit	1,853	\$7,956,347	\$419,901	\$572,891	\$47
Historic Preservation and Cultural and Entertainment District Tax Credit	14	\$987,047	\$3,731	\$0	\$0
Housing Investment Tax Credit	40	\$3,107,547	\$490,572	\$2,441	\$0
Investment Tax Credit	3,850	\$10,934,619	\$29,950,509	\$2,276,172	\$0
Iowa Industrial New Jobs (260E) Tax Credit	1,131	\$647,143	\$1,219,410	\$42	\$0
Minimum Tax Credit	3,692	\$1,300,169	\$2,646,744	\$0	\$0
Renewable Energy Tax Credit	50	\$72,296	\$183,799	\$0	\$0
S Corporation Apportionment Tax Credit	1,914	\$22,210,721	\$142,348	\$26,227	\$1,062,519
School Tuition Organization Tax Credit	1,010	\$1,998,031	\$217,556	\$2,936	\$325
Venture Capital Tax Credit - Iowa Fund of Funds	3	\$1,556	\$0	\$0	\$0
Venture Capital Tax Credit - Qualified Business or Community-Based Seed Capital Fund	216	\$319,301	\$116,783	\$0	\$0
Venture Capital Tax Credit - Venture Capital Funds	27	\$392,777	\$18,362	\$0	\$0
Wind Energy Production Tax Credit	0	\$0	\$0	\$0	\$0
Total Nonrefundable Credits	14,387	\$51,215,274	\$35,932,075	\$2,880,709	\$1,062,993
<b>Refundable Tax Credits</b>					
Assistive Device Tax Credit	2	\$0	\$0	\$0	\$0
Biodiesel Blended Fuel Tax Credit	57	\$0	\$0	\$0	\$378,922
Claim of Right Tax Credit	16	\$0	\$0	\$0	\$9,072
Ethanol Blended Gasoline Tax Credit	721	\$2,245	\$0	\$0	\$1,356,813
E85 Gasoline Promotion Tax Credit	72	\$0	\$0	\$0	\$101,126
Historic Preservation and Cultural and Entertainment District Tax Credit Discounted Refund	2	\$0	\$0	\$0	\$176
Investment Tax Credit	78	\$0	\$0	\$0	\$340,651
Research Activities Tax Credit	606	\$4,311	\$10,542	\$0	\$2,782,884
Supplemental Research Activities Tax Credit	50	\$0	\$0	\$0	\$200,334
Soy-Based Cutting Tool Oil Tax Credit	4	\$0	\$0	\$0	\$1,343
Soy-Based Transformer Fluid Tax Credit	0	\$0	\$0	\$0	\$0
Third Party Sales Tax Credit	2	\$0	\$0	\$0	\$928
Wage-Benefit Tax Credit	125	\$0	\$0	\$0	\$193,297
Total Refundable Tax Credits	1,735	\$6,556	\$10,542	\$0	\$5,365,546

Other problems encountered in analyzing the IA 148 forms include:

- Some taxpayers claimed tax credits that were not yet eligible to be claimed. For example, 50 claims were made for the Renewable Energy Tax Credit although no credits had been awarded for tax year 2006 under this program.
- Numerous taxpayers did not provide or incorrectly provided the tax credit certificate number necessary for matching credit claims with credit awards, and some incorrectly attempted to claim third party sales tax credits.
- Only one insurance premium tax return was filed with a correct IA 148 form attached even though it is known from other sources or from other documents provided with annual insurance premium tax returns that other insurance companies likely subtracted credit amounts from taxes owed to the State for tax year 2006.

In addition to data captured from the IA 148 form, data has been captured during the past year from three other supporting tax forms that if not filed electronically are not usually captured in the Department's computer databases. Data from these forms dating back to tax year 2002 were captured in anticipation of undertaking evaluation studies for several tax credit programs. The forms included in this additional data capture effort are:

- Research Activities Credit (Forms IA 128 and IA 128A)
- Ethanol Blended Gasoline Credit (Form IA6478)
- Investment Tax Credit (Form IA3468)

## Section 7: Recommendations

There are a number of issues that relate to tax credit programs that have been identified during the first two and a half years of the Tax Credits Tracking and Analysis Program. Some of the issues have been dealt with administratively and through cooperation with other departments of State government. For example, to facilitate the matching of credit claims with credit awards a tax credit certificate numbering system was established that all departments that award credits have agreed to use. On the other hand, some issues require a legislative remedy. During the 2006 legislative session changes were made to several tax credit programs that allow the sale, or transfer, of tax credits. Previously, each department that had responsibility for administering tax credit programs that allowed tax credits to be transferred was responsible for keeping track of the transferred credits. This presented a problem for the Department of Revenue in determining which taxpayers actually possessed the rights to claim certain credits. The 2006 legislation assigned the Department of Revenue the responsibility for processing all credit transfer transactions.

There are a number of other issues that legislation may be required to resolve. They include:

- Many credits may be claimed against the monies and credits tax but because this tax is collected by counties rather than the State, there is currently no way to effectively track or verify the validity of these claims. To remedy this problem we recommend that taxpayers claiming credits against the monies and credit tax file a copy of their county claim with the Department of Revenue and provide a copy of the IA 148 form with these claims.
- In order to complete evaluation studies for tax credit programs, it is often necessary to request information from taxpayers claiming these credits beyond what is provided on tax returns. For awarded credits requiring departments making the awards to include language in the award documents stating that in order to claim the credits the awardee must comply with requests for information from the Department of Revenue would be beneficial in improving the quality of the evaluation studies.
- A number of inconsistencies exist among tax credit programs. For example, for some tax credits annual limits are imposed on awards, while for others the limits are imposed on claims. Also, sometimes the limits are imposed per fiscal year and other times they are imposed per calendar year. Furthermore, for some tax credits with annual limits claims are honored on a first-come first-serve basis, while for other credits claims are prorated. The Department is able to administratively deal with these inconsistencies

but sometimes they are confusing to taxpayers. A summary of the major administrative features of tax credit programs is provided in Appendix D.

## Appendices

### Appendix A: Tax Credit Program Steering Committee and Working Groups

<b>Inter-Agency Steering Committee</b>	
<b>Name</b>	<b>Agency</b>
Paulette Day	Workforce Development
Donna Flamm	Insurance Division, Commerce
Angela Gullickson	Revenue
Zhong Jin	Revenue
Amy Johnson	Economic Development
Shawn Limback	Education
Mike Lipsman	Revenue
Jim McNulty	Revenue
Margaret Munson	Utilities Board, Commerce
Steve Ovel	Kirkwood Community College
Lane Palmer	Economic Development
Jack Porter	Cultural Affairs
Jeff Ward	Iowa Agricultural Development Authority

<b>Database Design Working Group</b>	
<b>Name</b>	<b>Agency</b>
Berry Bennett	Cultural Affairs
Ron Carrington	Revenue
Paulette Day	Workforce Development
Don Dursky	Economic Development
Leanna Gerald	Economic Development
Angela Gullickson	Revenue
Zhong Jin	Revenue
Amy Johnson	Economic Development
Jay Munson	Revenue
Margaret Munson	Utilities Board, Commerce
Nichole Warren	Economic Development

<b>Evaluation Methodologies Working Group</b>	
<b>Name</b>	<b>Agency</b>
Paulette Day	Workforce Development
Angela Gullickson	Revenue
Amy Harris	Revenue
Zhong Jin	Revenue
Shawn Limback	Education
Mike Lipsman	Revenue
Steve Ovel	Kirkwood Community College
Lane Palmer	Economic Development
Lowell Soike	Cultural Affairs

<b>Forms Design and Development Working Group</b>	
<b>Name</b>	<b>Agency</b>
Dennis Bowser	Revenue
Ron Carrington	Revenue
Beth Foster Hill	Cultural Affairs
Angela Gullickson	Revenue
Amy Johnson	Economic Development
Mike Lipsman	Revenue
Jim McNulty	Revenue
Margaret Munson	Utilities Board, Commerce
Jerry Northwick	Revenue

<b>Reports Working Group</b>	
<b>Name</b>	<b>Agency</b>
Angela Gullickson	Revenue
Zhong Jin	Revenue
Mike Johansen	Economic Development
Steve Ovel	Kirkwood Community College
Jack Porter	Cultural Affairs

<b>Tracking Transfers and Pass-Throughs Working Group</b>	
<b>Name</b>	<b>Agency</b>
Ken Boyd	Economic Development
Ron Carrington	Revenue
Zhong Jin	Revenue
Jim McNulty	Revenue
Larry Paxton	Revenue



## Appendix B: Tax Credit Programs Summary

Tax Credit Program	Usage Type	Awarded by:	Year Created
Biodiesel Blended Fuel Credit	Automatic	NA	2006
Child and Dependent Care Credit	Automatic	NA	1993
Cow-Calf Credit	Automatic	NA	1996
E-85 Gasoline Promotion Credit	Automatic	NA	2006
Early Childhood Development Tax Credit	Automatic	NA	2006
Earned Income Tax Credit	Automatic	NA	1991
Ethanol Blended Gasoline Credit	Automatic	NA	2002
Ethanol Promotion Credit	Automatic	NA	2009
Motor Vehicle Fuel Tax Credit	Automatic	NA	1975
Research Activities Credit (not doubled)	Automatic	NA	1985
S Corporation Credit	Automatic	NA	1998
Soy-Based Cutting Tool Oil Credit	Automatic	NA	2005
Tuition and Textbook Credit	Automatic	NA	1998
Accelerated Career Education (ACE) Program (260G)	Awarded	Community Colleges	2000
Iowa New Jobs Training Program (260E)	Awarded	Community Colleges	1983
Historic Preservation & CED Tax Credit	Awarded	DCA	2000
Assistive Device Credit	Awarded	DED	2000
Economic Development Region Revolving Fund Tax Credit	Awarded	DED	2005
Endow Iowa Tax Credit	Awarded	DED	2003
Enterprise Zone Program	Awarded	DED	1997
Film, Television, and Video Project Promotion Program	Awarded	DED	2007
High Quality Job Creation Program	Awarded	DED	2005
New Capital Investment Program	Awarded	DED	2003
New Jobs and Income Program	Awarded	DED	1994
Agricultural Assets Transfer Credit	Awarded	Iowa Agricultural Development Authority (IADA)	2006
Venture Capital Credit—contingent credit for investments in IA Fund of Funds)	Awarded	Iowa Capital Investment Board (ICIB)	2002
Venture Capital Credit—investments in Seed Capital Funds	Awarded	Iowa Capital Investment Board (ICIB)	2002
Venture Capital Credit—investments in Venture Capital Funds	Awarded	Iowa Capital Investment Board (ICIB)	2002
Renewable Energy Tax Credit	Awarded	IUB	2006
Wind Energy Production Tax Credit	Awarded	IUB/ Supervisors	2004
Soy-Based Transformer Oil Credit	Awarded	Revenue	2006
Wage-Benefit Tax Credit	Awarded	Revenue	2005
Targeted Jobs Credit From Withholding Pilot Project	Awarded	DED/Pilot Project Cities	2006
School Tuition Organization Credit	Awarded	School Tuition Organizations (STO's)	2006

## Appendix C: Descriptions for Tax Credit Programs

**Accelerated Career Education Program (ACE) (260G):** This withholding credit is administered by Iowa's Community Colleges and provides credits for employers that sponsor training slots at community colleges. Section 260G, Code of Iowa.

**Agricultural Assets Transfer Tax Credit:** This credit is awarded by the Iowa Agricultural Development Authority to taxpayers that lease agricultural assets to qualified beginning farmers. Section 175.37, Code of Iowa.

**Assistive Device Tax Credit:** This credit is awarded by the Iowa Department of Economic Development (DED) to taxpayers who make investments in assistive devices that allow for disability workplace accommodation. Section 422.11E, Code of Iowa.

**Biodiesel Blended Fuel Tax Credit:** This credit is available to retail dealers who sell biodiesel blended fuel equal to over 50 percent of their total diesel sales. Section 422.11P, Code of Iowa.

**Child and Dependent Care Tax Credit:** This credit is available to individual taxpayers who have eligible child and dependent care expenses. Section 422.12C, Code of Iowa.

**Cow-Calf Tax Credit:** Eligible individual and corporation income taxpayers who operate cow-calf beef operations in Iowa are eligible for a cow-calf credit. Section 422.120, Code of Iowa.

**E85 Gasoline Promotion Tax Credit:** An income tax credit, on a rate per gallon sold basis, is available to retail dealers of gasoline who sell E85 gasoline. Section 422.11O, Code of Iowa.

**Early Childhood Development Tax Credit:** The Early Childhood Development tax credit is equal to 25% of the first \$1,000 of expenses paid for early childhood development expenses for each dependent from the ages of three to five. Section 422.12C(1A), Code of Iowa.

**Earned Income Tax Credit:** This credit is available to individual taxpayers who qualify for the federal earned income credit. The credit is equal to 7% of the federal earned income credit. Section 422.12B, Code of Iowa.

**Economic Development Region Revolving Fund Tax Credit:** This credit is awarded by DED and is equal to 20% of the contribution made to an economic development region revolving fund. Section 15E.232, Code of Iowa.

**Endow Iowa Tax Credit:** This credit is awarded by DED and is equal to 20% of a taxpayer's endowment gift (up to \$100,000 for a single taxpayer) to a qualified community foundation. Section 15E.305, Code of Iowa.

**Enterprise Zone Program (EZ):** This program, administered by DED, encourages investment in Iowa's economically distressed areas by providing local and state tax credits, refunds and exemptions to qualifying companies that expand or locate in designated Enterprise Zones. Section 15E.191 through 15E.196, Code of Iowa.

**Ethanol Blended Gasoline Tax Credit:** A tax credit is available to service stations at which more than 60 percent of the total gasoline sold is ethanol blended gasoline. The credit is equal to two and a half cents for each gallon sold in excess of 60 percent. This credit will be replaced in 2009 by the Ethanol Promotion Tax Credit. Section 422.11C (2), Code of Iowa.

**Ethanol Promotion Tax Credit:** This credit will replace the ethanol blended gasoline credit beginning in 2009. It will be based on the amount of pure ethanol gallons sold. Section 422.11N, Code of Iowa.

**Film, Television, and Video Project Promotion Program:** This program, administered by DED, provides a 25 percent tax credit for investments or qualified expenditures in film projects produced in the State of Iowa. Section 15.391 through 15.393, Code of Iowa.

**High Quality Job Creation Program (HQJCP):** This program, administered by DED, provides tax benefits to eligible companies that create high-paying jobs and make capital investments. The program was created in 2005 and replaced the New Jobs and Income Program (NJIP) and the New Capital Investment Program (NCIP) beginning in FY 2006. Section 15.326 through 15.337, Code of Iowa.

**Historic Preservation and Cultural and Entertainment District Tax Credit:** This tax credit, administered by the Iowa Department of Cultural Affairs, provides a 25 percent tax credit for investments made in the rehabilitation of eligible historic properties. Section 404A, Code of Iowa.

**Iowa Industrial New Jobs Training Program (260E):** This program, administered by Iowa's Community Colleges, assists businesses that are creating new positions with new employee training. Participating companies divert withholding taxes that would be remitted to the Department of Revenue to a community college to pay for training for company employees. Section 260E, Code of Iowa.

**New Capital Investment Program (NCIP):** This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.381 through 15.387, Code of Iowa.

**New Jobs and Income Program (NJIP):** This program, administered by DED, was replaced by the High Quality Job Creation Program, beginning in FY 2006. Section 15.326 through 15.337, Code of Iowa.

**Renewable Energy Tax Credit:** This credit is available for a producer or purchaser of energy from a renewable energy facility approved as eligible by the Iowa Utilities Board (IUB). Section 476C, Code of Iowa.

**Research Activities Tax Credit:** This credit is 6.5 percent of Iowa's apportioned share of qualifying expenditures for increasing research activities. The Iowa research credit is based on the federal research activities credit, with the Iowa credit based on the ratio of Iowa research expenditures over total research expenditures. Section 15.335, Code of Iowa.

**School Tuition Organization Tax Credit:** This credit, administered by IDR, is for 65% of the amount of a voluntary cash contribution made by a taxpayer to a school tuition organization. Section 422.11S, Code of Iowa.

**Soy-Based Cutting Tool Oil Tax Credit:** A manufacturer is eligible to take a credit equal to the costs incurred for the purchase and replacement costs relating to the transition from using nonsoy-based cutting tool oil to using soy-based cutting tool oil. Section 422.11I, Code of Iowa.

**Soy-Based Transformer Fluid Tax Credit:** Electric utilities may claim this credit, administered by IDR, for the costs incurred by the utility for the purchase and replacement costs relating to the transition from using nonsoy-based transformer fluid to using soy-based transformer fluid. Section 476D, Code of Iowa.

**Targeted Jobs Tax Credit from Withholding:** This pilot program, administered by DED and four pilot project cities, provides for a withholding credit equal to 3% of the gross wages paid by the employer to each employee under the withholding agreement. These funds are to be used by the pilot city for an urban renewal project related to the employer. Section 403.19A, Code of Iowa.

**Tuition and Textbook Tax Credit:** This credit is available to individual taxpayers who have one or more dependents attending grades K-12 in an Iowa school. The credit percentage is 25% of the first \$1,000 paid for each dependent for tuition and textbooks. Section 422.12 (2), Code of Iowa.

**Venture Capital Tax Credit – Iowa Fund of Funds:** This contingent tax credit, administered by the Iowa Capital Investment Board (ICIB), is allowed for investments made into the Iowa fund of funds. The tax credit is only allowed to the extent that the actual rate of return on these investments does not meet the rate of return guaranteed to investors. Section 15E.61 through 15E.69, Code of Iowa.

**Venture Capital Tax Credit – Qualified Business or Community-Based Seed Capital Fund:** This credit, administered by ICIB, is 20 percent of the equity investment made into a qualifying business or community-based seed capital fund. Section 15E.41 through 15E.46, Code of Iowa.

**Venture Capital Tax Credit – Venture Capital Funds:** This credit, administered by ICIB, is 6 percent of the equity investment made in a venture capital fund. Section 15E.51, Code of Iowa.

**Wage-Benefit Tax Credit:** This credit, administered by IDR, is based on creating new jobs with good wages and benefits. The credit is either 5 percent or 10 percent of wages (depending on total wages and benefits relative to county average wage) for up to five years, as long as the job is retained. Section 15I.1 through 15I.5, Code of Iowa.

**Wind Energy Production Tax Credit:** This credit is for electrical production facilities that produce electricity from wind and is approved as eligible by the local board of supervisors and the IUB. Section 476B, Code of Iowa.

## Appendix D: Iowa Tax Credit Programs Administrative Provisions

Credit	Program(s)	Eligibility	Awarded by:	Capped	Time Basis of Cap	Refund	Transfer	PassThru	Tax Taken Against:	Carry forward	Allocation Method for Cap	Cap Provisions and Other Notes
Accelerated Career Education (ACE) Program Job Credits From Withholding	ACE Program	Awarded	Community Colleges	Yes	Fiscal Year	No	No	No	W	No	Pro-rated	Sponsoring employers allowed to divert portion of withholding taxes. Capped at \$6 million in FY06.
Agricultural Assets Transfer Credit	Agricultural Assets Transfer Credit	Awarded	Iowa Agricultural Development Authority	No	NA	No	No	Yes	C,I	5 years	NA	
Assistive Device Credit	Assistive Device Credit	Awarded	Economic Development	Yes	Fiscal Year	Yes	No	Yes	C,I	1 year	First-come-first-serve	Capped at \$500,000 in FY06. First-Come-First Served
Biodiesel Blended Fuel Credit	Biodiesel Blended Fuel Credit	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	
Child and Dependent Care Credit	Child and Dependent Care Credit	Automatic	NA	No	NA	Yes	No	No	I	1 year	NA	
Cow-Calf Credit	Cow-Calf Credit	Automatic	NA	Yes	Tax Year	Yes	No	Yes	C,I	No	Pro-rated	Capped at \$1,770,342 for claims in February 2006.
E-85 Gasoline Promotion Credit	E-85 Gasoline Promotion Credit	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	
Early Childhood Development Tax Credit	Early Childhood Development Tax Credit	Awarded	Revenue	No	NA	Yes	No	No	I	1 year	NA	
Earned Income Credit	Earned Income Credit	Automatic	NA	No	NA	No	No	No	I	No	NA	
Economic Development Region Revolving Loan Fund Tax Credit	Economic Development Region Revolving Loan Fund Tax Credit	Awarded	Economic Development	Yes	Fiscal Year	No	No	Yes	C,I,F,N,M	10 years	First-come-first-serve	Capped at \$2 million in FY06. Unused amounts carried forward into next year.
Endow Iowa Tax Credit	Endow Iowa Tax Credit	Awarded	Economic Development	Yes	Fiscal Year	No	No	Yes	C,I,F,N,M	5 years	First-come-first-serve	Capped at \$2 million in FY06. Unused amounts carried forward into next year.
Ethanol Blended Gasoline Credit	Ethanol Blended Gasoline Credit	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	Replaced by Ethanol Promotion Credit beginning 1/1/2009

Credit	Program(s)	Eligibility	Awarded by:	Capped	Time Basis of Cap	Refund	Transfer	PassThru	Tax Taken Against:	Carry forward	Allocation Method for Cap	Cap Provisions and Other Notes
Ethanol Promotion Credit	Ethanol Promotion Credit	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	Replaces Ethanol Blended Gasoline Credit beginning 1/1/2009
Historic Preservation & CED Tax Credit	Historic Preservation & CED Tax Credit	Awarded	Cultural Affairs	Yes	Fiscal Year	Yes	Yes	Yes	C,I,F,N	No	First-come-first-serve	Refund is at a discount rate. Capped at \$4 million for projects in Cultural and Entertainment Districts and \$2.4 million for projects not in a CED in FY07.
Housing Assistance Credit From Withholding	Enterprise Zone	Awarded	Economic Development	No	NA	No	No	No	W	No	NA	
Housing Investment Tax Credit	Enterprise Zone	Awarded	Economic Development	No	NA	No	Yes	Yes	C,I,F,N	7 years	NA	
Investment Tax Credit (ITC)	NJIP, NCIP, HQJCP, EZ	Awarded	Economic Development	No	NA	Mixed	No	Yes	C,I,F,N	7 years	NA	Up to \$4 million per year may be refunded for value added agricultural projects.
Iowa New Jobs Credit	Iowa New Jobs Training Program	Awarded	Community Colleges	No	NA	No	No	Yes	C,I	10 years	NA	
Local Property Tax Exemption	NJIP, HQJCP, EZ	Awarded	Economic Development	No	NA	No	No	No	P	No	NA	
Motor Vehicle Fuel Tax Credit	Motor Vehicle Fuel Tax Credit	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	
New Jobs Credit from Withholding	Iowa New Jobs Training Program	Awarded	Community Colleges	No	NA	No	No	No	W	No	NA	
Renewable Energy Tax Credit	Renewable Energy Tax Credit	Awarded	Iowa Utilities Board	Yes	One-time Cap	No	Yes	Yes	C,I,F,N,S,R	7 years	First-come-first-serve	Credits are indirectly capped by 200 MW limit (180 for wind and 20 for other).

<b>Credit</b>	<b>Program(s)</b>	<b>Eligibility</b>	<b>Awarded by:</b>	<b>Capped</b>	<b>Time Basis of Cap</b>	<b>Refund</b>	<b>Transfer</b>	<b>PassThru</b>	<b>Tax Taken Against:</b>	<b>Carry forward</b>	<b>Allocation Method for Cap</b>	<b>Cap Provisions and Other Notes</b>
Research Activities Credit (double)	NJIP, NCIP, HQJCP, EZ	Awarded	Economic Development	No	NA	Yes	No	Yes	C,I	1 year	NA	
Research Activities Credit (regular)	Research Activities Credit (regular)	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	
S Corporation Credit	S Corporation Credit	Automatic	NA	No	NA	No	No	No	I	No	NA	
Sales and Use Tax Refund	NJIP, NCIP, HQJCP, EZ	Awarded	Economic Development	No	NA	Yes	No	No	S	No	NA	
School Tuition Organization Credit	School Tuition Organization Credit	Awarded	School Tuition Organizations	Yes	Tax Year	No	No	No	I	5 years	STO decision	Capped at \$2.5 million in 2006 and \$5 million thereafter.
Soy-Based Cutting Tool Oil Credit	Soy-Based Cutting Tool Oil Credit	Automatic	NA	No	NA	Yes	No	Yes	C,I	1 year	NA	
Soy-Based Transformer Oil Credit	Soy-Based Transformer Oil Credit	Awarded	Revenue	No	NA	Yes	No	Yes	C,I,S,R	1 year	NA	
Supplemental New Jobs Credit from Withholding	Iowa New Jobs Training Program	Awarded	Community Colleges	No	NA	No	No	No	W	No	NA	
Targeted Jobs Credit From Withholding Pilot Project	Targeted Jobs Credit From Withholding Pilot Project	Awarded	DED/Pilot Project Cities	No	NA	No	No	No	W	No	NA	Pilot project cities: Burlington, Council Bluffs, Keokuk and Sioux City
Tax Increment Financing (TIF)	Iowa New Jobs Training Program	Awarded	Community Colleges	No	NA	No	No	No	P	No	NA	
Third Party Sales Tax Credit	NJIP, NCIP, HQJCP	Awarded	Economic Development	Mixed	Fiscal Year	Yes	No	No	C	7 years	DED Board Decision	Credit on racks and shelving is limited to \$500,000 per fiscal year, in aggregate.
Tuition and Textbook Credit	Tuition and Textbook Credit	Automatic	NA	No	NA	No	No	No	I	No	NA	

Credit	Program(s)	Eligibility	Awarded by:	Capped	Time Basis of Cap	Refund	Transfer	PassThru	Tax Taken Against:	Carry forward	Allocation Method for Cap	Cap Provisions and Other Notes
Venture Capital Credit-contingent credit for investments in IA fund of funds)	Venture Capital Credit-contingent credit for investments in IA fund of funds)	Awarded	Iowa Capital Investment Board (ICIB)	Yes	Fiscal Year and Multi-Year	No	Yes	Yes	C,I,F,N,M	7 years	First-come-first-serve	Only applies if fund doesn't meet guaranteed rate of return. Capped at \$20 million of claims in any one year.
Venture Capital Credit-investments in seed capital funds	Venture Capital Credit-investments in seed capital funds	Awarded	Iowa Capital Investment Board (ICIB)	Yes	Multi-Year	No	No	Yes	C,I,F,N,M	5 years	First-come-first-serve	Credits may be claimed until aggregate \$10 million cap is reached.
Venture Capital Credit-investments in venture capital funds	Venture Capital Credit-investments in venture capital funds	Awarded	Iowa Capital Investment Board (ICIB)	Yes	Multi-Year	No	No	Yes	C,I,F,N,M	5 years	First-come-first-serve	Credits may be claimed until aggregate \$5 million cap is reached.
Wage-Benefit Tax Credit	Wage-Benefit Tax Credit	Awarded	Revenue	Yes	Fiscal Year	Yes	No	Yes	C,I,F,N,M	1 year	First-come-first-serve	Credits is capped at \$10 million per fiscal year.
Wind Energy Production Tax Credit	Wind Energy Production Tax Credit	Awarded	Iowa Utilities Board/Local Boards of Supervisors	Yes	One-time Cap	No	Yes	Yes	C,I,F,N	7 years	First-come-first-serve	Credit is indirectly capped because only 450 MW of total capacity is eligible.

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue.

**Notes:**

For Tax Taken Against, W=Withholding, C=Corporate Income, I=Individual Income, F=Franchise, N=Insurance Premiums, M=Moneys and Credits, P=Property, S=Sales, and R=Replacement

For Program, EZ=Enterprise Zone, HQJCP=High Quality Job Creation Program, NCIP=New Capital Investment Program, and NJIP=New Jobs and Income Program.